

Maintaining a Flexible Mindset

An Interview with Byron L. Boston, Chief Executive Officer and Co-Chief Investment Officer, Dynex Capital, Inc.

EDITORS' NOTE *Byron Boston is an investment professional with an extensive background in fixed-income capital markets. During his 42-year career, he has held a number of leadership positions in the asset management/investment banking community, and has personally built two successful public companies. Boston began his career as a corporate banker with Chemical Bank, where he focused on direct corporate loans and bond issuances. He then joined the fixed-income training program at Credit Suisse First Boston (CSFB), subsequently becoming a mortgage-backed securities bond trader. Between 1986 and 1997, Boston traded mortgage securities for both CSFB and Lehman Brothers. In 1997, he was recruited by Freddie Mac to develop and lead the initial investment plan to grow their retained portfolio. After successfully overseeing the investment strategy and driving excellent performance, Boston departed Freddie Mac in January 2004 to launch Sunset Financial Resources, a mortgage REIT specializing in high-quality residential and commercial loans and securities. He led the company's initial public offering in March 2004, raising \$130 million in initial equity. Sunset was sold in 2006. Boston consulted with Redwood Trust Inc. until he joined Dynex Capital in 2008. He earned a degree in economics from Dartmouth College and an MBA specializing in finance and accounting from the University of Chicago.*



Byron L. Boston

responding effectively to dynamic market conditions, and recognizing how those conditions present new opportunities for us to meet our stakeholders' evolving needs. Originally, Dynex Capital was one of the earliest participants in the non-agency securitization markets. Dynex originated loans backed by both residential and commercial properties and subsequently sought financing in the non-agency securitization markets. However, in 2008 I was hired to

develop a new long-term business plan that would be more appropriate for the market conditions that existed at that time. This was a chance to capitalize on new opportunities that emerged following the Great Financial Crisis, particularly by increasing our exposure to the highly liquid Agency RMBS market.

When I started at Dynex in January 2008 our total capitalization was slightly above \$100 million and our investment portfolio was relatively small. Today, we have a seasoned team of professionals with deep experience in risk management and capital allocation across all noteworthy mortgage-related asset classes. In addition, we have increased our capital base to approximately \$850 million. Most importantly, strong execution along with comprehensive risk management practices continue to enable us to generate attractive dividend income and long-term total returns for our shareholders.

What have been the keys to Dynex Capital's growth and leadership?

Skilled risk management, disciplined capital allocation, and a diversified investment strategy have been key to our ability to rebuild Dynex's balance sheet over the past 15 years. Our team experience spans more than four decades in the fixed income marketplace, and we fully understand the importance of maintaining a flexible mindset toward an ever-changing and increasingly complex world.

Our experience managing through prior market cycles and major risk events has allowed us to make better decisions today. We live in a highly complex and interconnected global environment with many factors that could evolve into some type of surprise event. For example, we weren't shocked by the pandemic. We didn't predict it, but we were prepared because of the importance we place on understanding prior historical events. In other words, we did not rule out the probability of a large-scale health event. The best way to manage in today's markets is to prepare for multiple possible scenarios in the future.

Will you discuss Dynex Capital's investment strategy and how Dynex Capital approaches risk?

At Dynex Capital, we believe in building a diversified portfolio. However, today our global risk view dictates that we emphasize a narrower investment focus due to our view of the global macroeconomic environment. For example, after the global financial crash of 2008, we decided

COMPANY BRIEF *Dynex Capital, Inc. (dynexcapital.com) is a financial services company committed to the ethical stewardship of stakeholders' capital, employing comprehensive risk management and disciplined capital allocation to generate dividend income and long-term total returns through the diversified financing of real estate assets in the United States. Dynex operates as a REIT and is internally managed to maximize stakeholder alignment.*

Will you highlight the history and heritage of Dynex Capital?

Over our 35-year history, Dynex Capital has managed through multiple market cycles. We have learned from our history such that today we maintain a flexible investment strategy,

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to move down in credit and liquidity and we built a portfolio of various asset types in both the residential securities and the commercial real estate sector. We were willing to take credit risk from loans and unrated assets, as well as agency-backed securities. Starting in 2016, we became more cautious regarding the global risk environment, and we began to sell our less liquid and lower credit assets. Eventually we evolved our strategy to emphasize liquidity and liquid assets. Today, 95 percent of our assets are comprised of securities issued by a U.S. government agency such as Freddie Mac or Fannie Mae. We are holding a much larger percentage of our balance sheet in cash or unencumbered assets. Our emphasis on high-quality liquid assets and a high degree of liquidity on our balance sheet has served us well during this decade, as we have encountered a continual stream of surprise risk events.

How critical is it for Dynex Capital to build a diverse and inclusive workforce?

Dynex Capital had a diverse workforce before people started calling it DE&I – it’s just part of our DNA. Having a diverse team and different perspectives should be important for any business. For us, it’s invaluable because we’re assessing the global risk environment. We have people from different backgrounds and different parts of the world who bring unique views on everything from global events to domestic monetary policy – all vital factors to our ability to manage risk.

For decades, there have been huge segments of our society that have essentially been ignored in our country’s talent pool. As a corporate leader, I want to gain a competitive edge by tapping into this rich talent pool of smart, ethical, and experienced professionals. I want a group of people at the table who are comfortable contributing different sets of opinions, thinking outside the box and not just endorsing the conventional views. A leader needs to be able to elicit and manage a diverse set of opinions to deliver the right decisions for all stakeholders.

What do you see as Dynex Capital’s responsibility to be a good corporate citizen?

We manage other people’s savings and have an obligation of stewardship for

those investors, as well as our employees and creditors, all who could be impacted by our financial performance. As CEO, I constantly think about the impact that I can have on those around me, particularly those who are less fortunate than me, and those who can benefit from my knowledge or my team’s knowledge.

I often think about my father, a decorated WWII veteran, who didn’t have the same rights afforded to the majority when he returned home from the war to Mississippi. And I often wonder where the good people were in those times – the corporate leaders who could have spoken out and made a difference. I understand that there is no one playbook for when and where to take a stand on important issues, but we have an obligation to be a positive force within our sphere of influence as a member of the broader community.

One of the best things that I can do for society is to succeed, because there are not many people of color, and with my background, in this type of a leadership position. My success has put me in a position to help younger people by talking to them about my life’s journey. It’s gratifying to see people benefit from hearing about my experiences.

What do you feel are the keys to effective leadership and how do you describe your management style?

I believe in a collaborative approach. I always strive to surround myself with team members who are confident and who will bring healthy conversations to the workplace. There are situations where I, as the leader, must guide the decision, but collaboration is always important, and I want to make sure people are empowered to speak up. It’s not always easy to get others to bring their best ideas to the table, and sometimes you must challenge people to pull out their thoughts and opinions. But if we as an organization can encourage and empower healthy dialogue, then we end up making the best decisions for our stakeholders.

Did you always know that you had an entrepreneurial spirit and desire to build your own company?

I never thought of being an entrepreneur, CEO, or board director as a young man because people in those positions didn’t live in my

neighborhood. I followed my passion in terms of choosing to major in economics in college. The decision to leave St. Louis to attend Dartmouth College prepared me to step outside of my comfort zone and helped me learn how to succeed in a highly competitive world. Playing collegiate football also shaped my personality to where I was constantly trying to improve my chances, looking to gain a competitive edge, and finding the next best opportunity.

I decided to pursue a career on Wall Street in 1981, and eventually studied finance and accounting at The University of Chicago Booth School of Business. I have spent half my career in corporate America and half my career in the world of entrepreneurship. After developing a solid base of skills in corporate America, I was presented with an opportunity to build a company from the ground up. This was exciting and another opportunity to step out of my comfort zone. I was well-trained, prepared, and intensely focused on succeeding in building my first company, Sunset Financial Resources. After three years, we sold Sunset, and a group of my shareholders asked me to come develop a business plan to grow Dynex Capital. This was the ultimate compliment – seeing my prior shareholders so happy with my performance that they invited me onto their team to build another company.

You have been with Dynex Capital for more than 15 years. What has made the experience so special for you?

The single most important thing for me is knowing that I’ve taken care of all our stakeholders during my tenure as the company leader. When I joined Dynex, it was a stable company, but it didn’t have a growth strategy. I was asked to develop a business plan that would enable Dynex to grow in a sustainable manner over the long-term, and I have been doing that ever since. Most importantly, I have worked with some wonderful people and the team surrounding me is the best.

Every decision hasn’t been perfect – no one’s experience ever is – but our flexible mindset, and deep respect for history, continues to serve us and our stakeholders well.

What advice do you offer young people starting their careers?

A lot has changed about work, society, and the world we live in since I entered the workforce. What remains important is the need to understand yourself, your strengths and interests, and your motivations. Success requires passion with a good dose of realism and a general understanding of today’s economics and society. I tell young people to think about what their passions are, then ask themselves how much they need to support their desired lifestyle and whether they can achieve that by following those passions. Someone’s passion may in fact be a hobby and they may have to pursue a different career to fulfill that passion. In a capitalist system, it is okay to want to make a lot of money and also do something good with that money. I have always told myself that money in the hands of a good person is a powerful thing. ●